



OFFICE OF THE STATE AUDITOR



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Audit Reveals that Unemployment Insurance and other State Agencies Failed to Comply with Federal Program Requirements

DENVER—the Office of the State Auditor (OSA) has released Volume Two of its annual statewide financial and compliance audit for Fiscal Year 2020. This second report focuses on the State of Colorado’s compliance with requirements for federal grant awards. The State had about \$18 billion in federal grant expenditures in Fiscal Year 2020. Similar to the financial statement opinion from earlier this year, the State Auditor issued a disclaimer of opinion on Unemployment Insurance, meaning that she expressed no opinion about whether the Department of Labor and Employment had complied with applicable federal requirements for the Unemployment Insurance Program. Problems identified by auditors included a failure to cross-match unemployment benefit payment amounts with employer-reported wage records, a backlog of claims that had not been adjudicated as of fiscal year end, neglecting to use the Treasury Offset Program to recover overpayments, an issue with a form used by claimants resulting in overpayments, and fraudulent claims that were paid by the Department. About \$52.3 million in known questioned costs were identified for the Unemployment Insurance Program. Questioned costs are federal grant expenditures made in violation or possible violation of applicable requirements or that lack adequate supporting documentation.

Auditors also identified material instances of noncompliance with federal program requirements, resulting in a qualified opinion for the Child Care and

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Development Fund Cluster, the Children’s Basic Health Plan, the Coronavirus Relief Fund, the Food Distribution Cluster, the Medicaid Cluster, and the Minerals Leasing Act. For example, auditors found problems with eligibility determinations for Medicaid and the Children’s Basic Health Plan; in total, auditors identified about \$166.5 million in likely questioned costs. Related to the Coronavirus Relief Fund, the Office of the State Controller did not adequately communicate subrecipient monitoring responsibilities to other state departments, resulting in the Departments of Education and Higher Education failing to comply with program requirements.

“Our audit covered federal expenditures that were made prior to June 30 of last year. Since then, state agencies have continued to receive significant additional federal funding through the CARES Act and the recently enacted American Rescue Plan. The State’s compliance with federal program requirements will remain a high risk area for audits for the foreseeable future,” said Marisa Edwards, Audit Manager.

The four federal programs with the most expenditures in Fiscal Year 2020 were Medicaid (\$6.2 billion), Unemployment Insurance (\$4.4 billion), Student Financial Assistance (\$1.3 billion), and Research and Development (\$1.0 billion). Auditors made a total of 106 recommendations to state departments and higher education institutions for improvements. Volumes One and Two the of the OSA’s annual statewide financial and compliance audit are available online at www.colorado.gov/auditor.

About the Office of the State Auditor (OSA)

Under the direction of the State Auditor, the OSA is the State’s nonpartisan, independent external auditor with broad authority to audit state agencies, departments, institutions of higher education, and the Judicial and Legislative Branches. The OSA also conducts evaluations of the State’s tax expenditures (e.g., credits, exemptions, deductions) established in statute, administers a fraud reporting hotline, and tracks about 4,000 Colorado local governments for compliance with the Local Government Audit Law. The OSA’s professional staff serve the people of Colorado by addressing relevant public issues through high-quality, objective audits, evaluations, and other work products that promote accountability and positive change in government.

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